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Report to Congressional Requesters

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SOCIAL SECURITY

Direct Mail Solicitations by the Social Security Protection Bureau

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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

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January 26, 1990

The Honorable Andrew Jacobs, Jr.
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

This report responds to your request that we provide information on the fund-raising activities of the Social Security Protection Bureau. Your concerns centered on activities of the bureau as well as of those of the parent organization, the Watson & Hughey Company. In response to these concerns, in this report we present information on

- the Watson & Hughey Company's income and its organizational links with the bureau and other affiliated organizations;
- bureau services;
- bureau operations and their legality under federal laws; and
- miscellaneous information, including the costs incurred by the Social Security Administration and actions being considered or taken by state governments against the bureau.

During the course of our review, we spoke with representatives of the U. S. Postal Service, the Social Security Administration, state governments, and consumer interest groups, as well as a number of private citizens who had dealt with the bureau. Messrs. Watson and Hughey would not agree to a meeting with us, but we did talk with their Washington counsel, Michael Kushnick.

We did our review in accordance with generally accepted government auditing standards. Our verification of membership fee refunds and sweepstakes prizes was limited, however, because the bureau did not provide all the information we requested. (See app. I for detailed discussion of objectives, scope, and methodology.)

Watson and Hughey Organization and Income

The Social Security Protection Bureau is the creation of Messrs. Watson and Hughey—sole partners of the Watson & Hughey Company. Through direct mail solicitation and charitable fund-raising, the Watson & Hughey Company has developed into a multimillion-dollar business, promoting many separate nonprofit organizations. These activities have attracted a considerable amount of adverse publicity because the Watson & Hughey Company, and not charitable organizations, have received most of the moneys obtained from the general public.

In 1984, Messrs. Watson and Hughey created a for-profit corporation—Foxhall Corporation—of which they are the directors and officers. The Foxhall Corporation does business under a trade name—the Social Security Protection Bureau.

Bureau Services

The Social Security Protection Bureau offers members a number of services for an initial fee of $7.00. These include assistance in obtaining earnings and benefit information from the Social Security Administration and lobbying efforts in Washington on members' behalf. Bureau mailings state that each year hundreds of thousands of Americans are not given proper credit for money they paid into Social Security and, therefore, an earnings statement from the Social Security Administration is needed. The mailings also state that representation in Washington is necessary in order to ensure that members will not lose the benefits they are entitled to. In addition, the mailings frequently include a sweepstakes format to entice potential members.

Legality of Bureau Operations

Bureau operations have engendered a considerable amount of indignation and criticism both within and outside the government because the so-called benefits the bureau offers members appear to be of dubious value. For example, those who pay the $7 membership fee are provided assistance in obtaining earnings information from the Social Security Administration. The information, however, is available from the Administration free of charge.

Recently, the Senate Finance Subcommittee on Social Security and Family Policy held hearings on mass mailings to the elderly, concerning Social Security benefits, by various direct mail solicitation firms. Members of the Congress were critical of what they consider deceptive mailing practices employed by these firms, such as using organizational names that resemble those of federal agencies. Members and witnesses criticized these organizations for their fear tactics and their claims of

having engaged in lobbying efforts in Washington. The Social Security Protection Bureau was one of the organizations singled out in statements presented at these hearings.

Nevertheless, to date, it appears that the Social Security Protection Bureau has operated without violating federal legal requirements. Accordingly, no federal agency has taken formal legal action against the bureau. However, the U.S. Postal Service is reviewing bureau activities to see if the bureau has violated any federal laws prohibiting false representation or using the mails for running a lottery (such as sweepstakes). In addition, the bureau's counsel told us that two state governments have made preliminary inquiries concerning bureau operations within their states.

Available information indicates that at least 13 states have taken some form of actions against the parent firm—the Watson & Hughey Company—for its fund-raising operations for nonprofit charities. Actions taken include filing suits, submitting written questions (which attempt to get written answers concerning bureau operations), and filing cease and desist orders against firm mailings.

Costs Incurred by the Social Security Administration

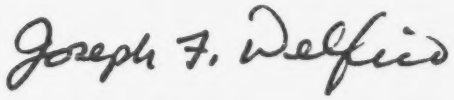
The Social Security Administration reported to us that it has processed over 350,000 requests for earnings and benefit information generated by the Social Security Protection Bureau. It is difficult to say whether these requests would have been made had it not been for factors—such as the appeal of possible sweepstakes winnings or the fear of losing Social Security benefits—engendered by bureau letters.

The Social Security Administration incurred administrative costs of about $900,000 to process the requests generated by the bureau. About $185,000 was spent to send letters to each individual requester. The letters sent by the Social Security Administration asked requesters to resubmit their requests on a revised form, copies of which were included. The letter also explained that earnings and benefit information is (1) available without charge and (2) paying for bureau membership is not necessary to obtain it. The Administration had to send the letters because the forms the bureau gave members were outdated.

A more detailed discussion of these and related matters is presented in appendix II. As you requested, we did not obtain written comments on this report. We discussed its contents with officials of the Social Security Administration and incorporated their comments where appropriate.

As arranged with your office, unless you publicize its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will make copies available to others on request.

If you have any questions, please call me on (202) 275-6193. Other major contributors to this report are listed in appendix III.



Joseph F. Delfico
Director, Income Security Issues

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Objectives, Scope, and Methodology

The objectives of our review were to respond to questions raised in the February 27, 1988, letter from the Chairman of the Subcommittee on Social Security and the Chairman of the Subcommittee on Oversight, House Ways and Means Committee, as modified by subsequent discussions with the Subcommittee staffs. Overall, we were asked to

- provide information on (1) the organizational links between the Watson & Hughey Company and other affiliated organizations and (2) the income of the Watson & Hughey operations.
- determine the services the bureau offered people, and
- examine whether the bureau has violated federal law.

Our review centered on the activities of the bureau. However, because of the Chairmen's interest, we did some limited review of the involvement of Watson & Hughey with certain nonprofit and charitable organizations.

We attempted to meet with the two principals—Jerry C. Watson and Byron C. Hughey—but they would not agree to meet with us. We did, however, talk with their Washington counsel, Michael G. Kushnick of Rose, Schmidt, Hasley & DiSalle. Through him, we submitted a detailed list of questions to Messrs. Watson and Hughey.

We were given information on bureau activities. We were, however, denied any information that would give an indication of the extent of (1) mailings to the general public or (2) revenues being realized. This denied information included balance sheets and income and expense statements, frequency and specific numbers of direct mailings to the public, and number of respondents to bureau solicitations.

Concerning bureau activities, we attempted to verify that people (1) requesting refunds of their membership fees actually received them and (2) reported to have won sweepstakes prizes actually received them. This attempted verification was hampered by two factors: first, the limited amount of information on such people provided by Messrs. Watson and Hughey and, second, the difficulty of making telephone contact with the people that Watson and Hughey had identified.

We spoke with officials of the Social Security Administration and the Office of Inspector General, Department of Health and Human Services. At our request, the Social Security Administration gathered information on the costs it had incurred in responding to requests for individual earnings and benefit information that were generated by the bureau.

During the course of our review, we discussed the activities of the bureau with representatives of the U.S. Postal Service. We also spoke with representatives of consumer interest groups and state governments to determine what (1) complaints had been received from the public and (2) possible actions were being considered against the bureau.

We searched the literature for articles concerning either the Watson & Hughey Company or the Foxhall Corporation, that is, the Social Security Protection Bureau. We attempted to speak with attorney generals' offices in those states that we had reason to believe were considering legal actions. Staffers in these offices were reluctant to discuss the specific actions they had taken or were planning to take; at times, they stated they could not answer our questions.

In addition, we reviewed existing laws and proposed legislation applicable to the activities of the bureau. We also had discussions with the general counsel of the Department of Health and Human Services, as well as other concerned government agencies, on the legality of bureau activities.

Activities of the Social Security Protection Bureau

Information on the organization, finances, and operations of the Social Security Protection Bureau is presented below. This is followed by discussions of the services offered to participants, sweepstakes offerings, legal issues, and the estimated costs that the Social Security Administration incurred because of bureau activities.

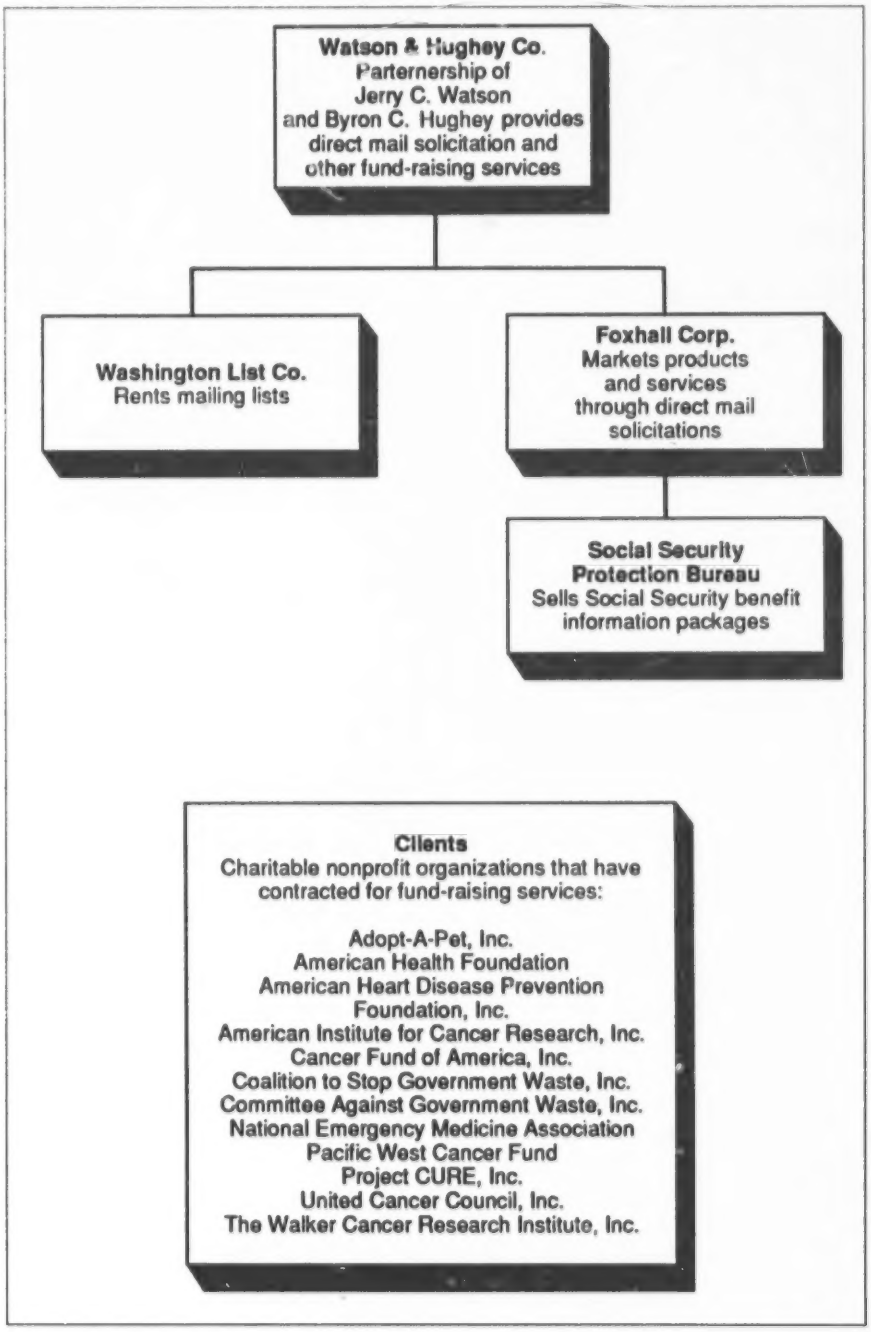
Organizational Links

The Watson & Hughey Company is a partnership existing under Virginia partnership laws. The partnership was formed on December 30, 1981, for purposes such as direct mail solicitation and charitable fund-raising.

The Watson & Hughey Company has entered into a number of contracts with nonprofit organizations. Watson & Hughey make the initial contact with a nonprofit organization on the basis of organization need for some publicity and initial funding to launch a nationwide charitable contribution drive. Watson & Hughey is subsequently reimbursed for (1) the initial expenses of such campaigns, including costs associated with the direct mail solicitation of donations from the public, and (2) rental of its mailing lists. Watson & Hughey is also reimbursed for management services.

Headquartered at 510 King Street (Suite 515), Alexandria, Virginia (22314), Watson & Hughey has registered to act as a fund-raiser in all states that require such registration. Because it is not a taxable entity, taxes on Watson & Hughey earnings are paid by the partners, Messrs. Watson and Hughey, individually. Together, they directly control two other entities—the Foxhall Corporation and the Washington List Company (see fig. 1).

Figure 1: Watson & Hughey Companies and Clients


Watson & Hughey Co.
Partnership of Jerry C. Watson and Byron C. Hughey provides direct mail solicitation and other fund-raising services
Washington List Co.
Rents mailing lists
Foxhall Corp.
Markets products and services through direct mail solicitations
Social Security Protection Bureau
Sells Social Security benefit information packages
Clients
Charitable nonprofit organizations that have contracted for fund-raising services:
Adopt-A-Pet, Inc.
American Health Foundation
American Heart Disease Prevention Foundation, Inc.
American Institute for Cancer Research, Inc.
Cancer Fund of America, Inc.
Coalition to Stop Government Waste, Inc.
Committee Against Government Waste, Inc.
National Emergency Medicine Association
Pacific West Cancer Fund
Project CURE, Inc.
United Cancer Council, Inc.
The Walker Cancer Research Institute, Inc.

The Foxhall Corporation is a for-profit corporation incorporated in Delaware on August 7, 1984, and is also located at 510 King Street (Suite 515), Alexandria, Virginia (22314). The Foxhall Corporation is authorized by its certificate of incorporation "to engage in any lawful act or activity for which corporations may be organized under the General Corporation Act of Delaware." Its activities include direct mail solicitation of products and services, such as those for the Social Security Protection Bureau. The Foxhall Corporation has not engaged in charitable fund-raising.

The Foxhall Corporation, said officials of the Virginia State Corporation Commission, began doing business in Virginia under the trade name—Social Security Protection Bureau—in 1984. In its 1987 report to the state of Virginia, the corporation listed only two officers and directors: president, Byron C. Hughey, and secretary-treasurer, Jerry C. Watson.

The Washington List Company is a trade name under which the Watson & Hughey Company operates its mailing list brokerage business. The Washington List Company does not have any legal existence, officers or directors, or separate tax status. Its mailing address is 510 King Street (Suite 515), Alexandria, Virginia (22314).

Financial Information

We were unable to obtain information on the financial condition of the Social Security Protection Bureau or its financial relationship with other organizations with which Messrs. Watson and Hughey have been involved.

On March 24, 1989, we made a formal request for information on the Social Security Protection Bureau to Messrs. Watson and Hughey. The request was made through their legal counsel, Michael Kushnick.

Messrs. Watson and Hughey provided some of the information we requested on the Social Security Protection Bureau and its operations. Specific financial information—balance sheets, income and expense statements, cash flow statements, and intraorganizational payments—was, however, denied. Other information—such as volume of solicitations and actual revenues generated from the public—were also denied. We were advised by Messrs. Watson and Hughey that the denied information was considered to be highly proprietary, constituting business and trade secrets.

Bureau Operations

Messrs. Watson and Hughey provided the following comments about bureau operations: A 1-year membership costs $7.00. Reduced $5.00 rates are offered for additional family memberships. Numerous members have bought gift memberships for their families and friends. Yearly renewals are also $7.00, and nearly 25 percent of all paid members have renewed their memberships for at least an additional year.

The bureau has a no-questions asked, money-back refund policy. During 1988, less than one-quarter of 1 percent of all members requested refunds. Although we were not given the actual numbers of people who had requested refunds, we were given a limited list of five individuals who had requested and received refund checks during the month of January 1989. We attempted to speak with all five, but were only able to speak with two. Both stated that they had received refunds.

Bureau promotion stresses verification of Social Security contributions, which is more important to workers than to retirees. Elderly Americans, that is, retirees, are therefore not targeted. Messrs. Watson and Hughey explained that on only three separate occasions, the bureau had used mailing lists of elderly Americans. The bureau calculates the break-even point on its direct mail solicitations to be 37 cents per letter; it claimed that generated gross income per letter was 2 cents for the first list, 18 for the second, and 21 for the third of the three lists it used. Therefore, it believes that if elderly Americans were targeted, the bureau would expect to lose considerable sums on such solicitations.

Messrs. Watson and Hughey told us that the mass mailings have generally been equally divided between those using a sweepstakes format and those which do not (see p. 16 for a discussion of the sweepstakes format). We requested specific information on the frequency or dates of all mailings, as well as the number of people mailings were sent to. We also requested that mailings including sweepstakes be broken out from those that did not. This information was denied to us.

Bureau Services

The Social Security Protection Bureau offers members certain services for a $7.00 membership fee. The most tangible service appears to be assistance in obtaining Social Security earnings and benefit information—which Social Security offers to the public for free.

The services offered by the bureau include these:

1. Personal gold-embossed plastic Social Security card: The card is advertised as being durable, almost impossible to alter by anyone, and accepted in most places the regular Social Security paper card is. (Watson & Hughey refused to provide us with information on the cost of producing these plastic cards.) Lawyers for the bureau stated that "benefits" of the plastic card include (1) being able to place the paper card in a safe deposit box for safekeeping and (2) carrying only the plastic card, making it more difficult for other people to alter and then use the card.

The actual value of this service to the member appears minimal. There is little reason for a person to carry a Social Security card. The sole purpose of the card is to provide the recipient with a record of his or her Social Security number. Further, we were advised that the bureau does not verify that the Social Security number of the member is, in fact, his or her Social Security number.

2. Personal statement of Social Security record: Upon request, the Social Security Administration will provide people with a Personalized Earnings and Benefit Estimate Statement. The statement provides—by year—up-to-date information on a person's Social Security-covered earnings and taxes paid, as well as an estimate of monthly benefits should the person retire, become disabled, or die.

The bureau mailings (1) warn that hundreds of thousands of people are not given proper credit for the money they pay into Social Security and (2) state that the bureau will help people get statements of their Social Security records. GAO itself, Mr. Kushnick said, reported that large numbers of people do not receive proper credit because of errors by Social Security.

In its mailings, the Social Security Protection Bureau includes the Social Security Administration request form, SSA form 7004. The bureau asks potential members to fill out the forms and return them to the bureau. The bureau then submits the completed forms to the Social Security Administration, which will mail the Personalized Earnings and Benefit Estimate Statement to the members.

This is probably the most beneficial service provided by the bureau. However, the Social Security Administration will provide this information free of charge and probably more expeditiously since there is no third party involved. Again, Messrs. Watson and Hughey refused to tell

us the number of requests they had received for information on Social Security records.

3. Reward of $500: A reward is offered for information leading to the arrest and conviction of any person stealing a member's card, illegally using a member's number, or fraudulently trying to collect a member's Social Security benefits. We asked whether any such reward had actually been given and were told that as of April 10, 1989, there had been no such awards.

4. Social Security guide to retirement: This is a handout given to new members. It provides some basic information on Social Security and also refers to the "benefits" of Social Security Protection Bureau membership. We found the guide to be easily understood, but rather general in its discussion. It does, however, advise people to call the Social Security Administration for more information and lists some of the brochures available at Social Security.

5. Representation in Washington, D. C.: The Washington, D.C., law office of Rose, Schmidt, Hasley & DiSalle has been retained to (1) act as the lobbying agent for the bureau and (2) monitor proposed legislation relating to Social Security benefits. The firm first registered with the House of Representatives on November 5, 1986. It reported the following as revenues received for its lobbying activities: 1986, $1,500; 1987, $6,000; and 1988, $8,350.

Firm officials stated that as the bureau's lobbying agent, the firm monitors, through discussion with congressional staff and other means, legislation such as

- legislative proposals to create an independent agency for the Social Security Administration,
- protection of cost-of-living adjustments to Social Security benefits,
- proposed Social Security Notch Adjustment Act,
- proposed Social Security requirements to send periodic personal earnings and benefits statements to Social Security participants, and
- the Deceptive Mailing Prevention Act of 1988.

We were unable to identify any congressional contacts made by the firm. Key congressional staffers within the Subcommittees that authorize Social Security legislation and the House and Senate Committees on Aging were not aware, they told us, of any lobbying effort on behalf of the Social Security Protection Bureau or any communication from its

lobbyist. In addition, during our review, we requested copies of any correspondence between the law firm and key congressional committees. No such correspondence was provided.

Sweepstakes Awards

As part of its solicitation, the Social Security Protection Bureau also promotes sweepstakes for which everyone is eligible, whether or not the $7 membership fee is remitted. Various sweepstakes awards have been made.

One type of award is a $5,000 cash bonanza sweepstakes. The $5,000 represents the total amount of moneys that would be given away during the contest. The sweepstakes letter advises the recipients that they are guaranteed fourth-round finalists who will receive cash awards. The cash awards can range from $1,000 to 40 cents (minimum prize amount). There is only one winner of $1,000 in the entire sweepstakes mailing (see table II.1). A person is asked to send in $7.00 for a membership or a blank check with the word VOID printed on it. One postal service official told us that a person tends to write $7.00 on the check rather than the word VOID.

Table II.1: Sweepstakes Awards by Category of Finalists

Category of finalists	Awards	Amount	Total
Third round	1	$1,000	$1,000
Fourth round	3	100	300
	3	50	150
	5	25	125
	50	5	250
	175	1	175
Total	**237**		**$2,000**

The remaining $3,000 of the originally advertised $5,0000 sweepstakes is divided among those people who return the official cash claim coupons and comply with the official rules.

Messrs. Watson and Hughey told us that the Social Security Protection Bureau sent out $44,000 in sweepstakes checks over a recent 12-month period. They provided us with photocopies of about 400 checks that had been sent out to winners (ranging from $100 to $5). All the checks were endorsed and cancelled.

Legal Issues

To date, it appears that the Social Security Protection Bureau has operated without violating federal legal requirements. Accordingly, no federal agency has taken formal legal action against the bureau. However, the U.S. Postal Service is reviewing the bureau's activities to see if there is any possible violation of federal laws prohibiting false representation or using the mails for running a lottery. We were also advised by the bureau's counsel that two states have requested some preliminary information on the bureau's activities.

At least 13 states—including Hawaii, Illinois, Iowa, Massachusetts, Minnesota, Missouri, New Hampshire, New York, Pennsylvania, Texas, and Washington—have taken some form of action against the parent company—the Watson & Hughey Company—and the nonprofit and charitable organizations with which they are affiliated. These actions have been taken because of possible violations of state provisions pertaining to nonprofit organizations and consumer protection.

Social Security Administration Costs

The Social Security Administration provides, free of charge, information that people request about the yearly earnings it has recorded for them. This information generally can include detailed earnings information, such as earnings by year and by quarter, with names and addresses of reporting employers if it is for program-related purposes. Information is considered to be program related if it is to be used for purposes such as

- determining eligibility for and estimating amounts of Social Security-related benefits,
- verifying accuracy and crediting of earnings records, and
- resolving discrepancies in information in Social Security records.

The Social Security Administration generally charges for giving detailed information that is not program related. According to its program operating manual, such information is considered not program related if it is being requested to provide information for

- verification of earnings and employment for private pension purposes,
- use in civil litigation not related to Social Security, and
- use concerning Workers' Compensation.

In charging for information that is not program related, the agency's regulations require that full costs, both direct (for example, employees' salaries) and indirect (for example, office overhead) be considered. The

Administration either uses a fee schedule designed to cover full costs or calculates the full costs of providing the information.

We asked the Social Security Administration to identify requests for earnings information that were generated by the Social Security Protection Bureau during fiscal years 1988 and 1989. About 350,000 were identified, of which 100,000 were submitted during fiscal year 1988 by the bureau on an older version of the request form (SSA-7004). The unit cost to the Social Security Administration to process the older form was lower than for the newer form, and the total cost for the 100,000 was about $147,000.

In August 1988, the Social Security Administration announced the availability of the new Personalized Earnings and Benefit Statement. The Administration continued to receive the older-version SSA-7004 forms from the bureau through fiscal year 1989. In February 1989, the Social Security Administration began mailing out new forms, along with a cover letter from the Commissioner. In this letter, the Commissioner asked requesters to resubmit the new forms and said that it was unfortunate that they were paying the bureau for earnings statements since the Social Security Administration provides such information free. The letter also pointed out that the bureau was a private company. As of July 24, 1989, the Social Security Administration had sent copies of the new earnings statement form to 250,000 people.

The Social Security Administration estimates that it required about $91,000 in salary costs to stuff the envelopes and prepare the 250,000 replies for mailing. In addition, the postage came to about $55,000, assuming that all the forms were sent by the presorted bulk rate. To these costs, the Social Security Administration's normal overhead rate of 26 percent should be applied. This would bring the total cost of sending the new forms and cover letters to 250,000 people to about $185,000.

Assuming that all 250,000 of the bureau's original requests for earnings information were subsequently submitted to the Social Security Administration, its cost for processing the 250,000 Personalized Earnings and Benefit Statements would have amounted to $580,000.

During fiscal years 1988 and 1989, the bureau generated about 350,000 requests for earnings information. It is difficult to determine whether people (1)would have requested earnings and benefit information on

their own initiative or (2) were motivated by other factors, such as the sweepstakes appeal.

In total, the Social Security Administration could have incurred an estimated administrative cost of up to $900,000 to honor all of these requests. About $185,000 of this cost represented extraordinary expenses associated with the Administration's writing letters to individual requesters, (1) explaining that they had spent $7.00 for what they could have received free and (2) asking them to submit the new revised request forms. At the same time, the Social Security Protection Bureau could have received about $2 million in membership fees from these 350,000 new members.

Major Contributors to This Report

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